

BRIDGEWATER ASSOCIATES - GLOBAL INFLATION-LINKED BONDS
GLOBAL FIXED: LEHMAN TIPS BENCHMARK

FOR THE MONTH OF: **AUGUST** **2006**

MANAGER PERFORMANCE CALCULATIONS

* Annualized returns

	Last Month	Last 3 Months	Last 1 Year	Last 3 Years*	Last 5 Years*
Bridgewater	0.98%	2.30%	2.19%	n/a	n/a
Lehman TIPS	1.73%	3.68%	1.53%	5.95%	7.33%

PERFORMANCE ATTRIBUTION & STRATEGY COMMENTS

The Inflation-Linked Bond Markets - Real yields continued to fall in August, with yields falling by 8-16bp in all major developed markets. U.S. bonds rallied in response to a modest slowdown in the U.S. economy and an extrapolation of this slowdown into the future. The extrapolation is based on the view that a weak housing market will spill over to the rest of the economy, producing an overall weak environment, and was led by speculators in the futures markets and active players in the bond market. Real money players, like corporations, are increasing, not reducing, their demand for credit. Bonds have now fully discounted near-term Fed easing while the Fed is actually debating whether to continue tightening. The weakening housing market, while important, is not the only influence on the overall economy. Other factors such as strong foreign growth and demand for US goods, tightening labor markets, improving wage growth, and a healthy corporate sector (which is providing a lot of cash to households due to buybacks) all work to offset the influence of weaker housing and high energy prices. Yields also fell in other countries, mostly as a knee-jerk reaction to falling yields in the US. In Euroland, where growth is improving and is now similar to the US, yields should be rising and not falling; as a result, we have gotten more short in Euroland and expect yields to rise elsewhere as well.

The TIPS index posted a 1.73% return for the month. Since we are underweight TIPS we generated -0.06% of alpha from this market in August.

Break-even Inflation Rates - Cyclical inflationary pressures are becoming increasingly evident and are being ignored in light of a modest decline in US growth. Capacity is getting tight, and companies can no longer tap under-utilized workers to meet new demand. Consequently, productivity growth is slowing and the balance of power is shifting from companies to workers. Wage growth is accelerating, and margins are starting to get squeezed. These pressures are translating into strong increases in unit labor costs and will continue to flow through to increased core price inflation. These pressures are being mitigated by cheap labor from emerging markets, but even in place like China, there are signs of tightening labor conditions.

Break-even inflation fell modestly in August. In total, our trading of break-even inflation rates produced -0.05% of alpha in the month.

Portfolio Positioning - We remain underweight inflation-linked bonds globally and are currently short every developed market. Our break-even positions are smaller, but we expect nominal bonds to sell-off a bit more than inflation-linked bonds (inflation expectations to rise).

For the month of August the benchmark posted a return of 1.73%; the alpha generated for the portfolio was -0.75%, and the gross of fees return for the portfolio was 0.98%.

MANAGER STYLE SUMMARY

Bridgewater manages a Global Inflation-Linked Bond portfolio. This is an expansion of our existing SSgA TIPS (Treasury Inflation Protected Securities) allocation in that (1) this portfolio will be actively managed and will not employ simply a buy and hold strategy and (2) Bridgewater will not be limited to only US TIPS. Given this global mandate, Bridgewater has the latitude to hold foreign, non-dollar denominated securities, take currency positions, and enter into futures, options and swaps contracts.

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PORTFOLIO GUIDELINE COMPLIANCE

AUGUST 2006

Portfolio Guideline:	Lehman TIPS	Bridgewater	Min	Max	Compliance
B2a. Country Exposure					
i. Net exposure to individual countries between ± 7.5 years of duration around the benchmark					ok
ii. Long nominal positions are not permitted					ok
iii. Any country issuing IL bonds w/a sovereign local currency credit rating (S&P) of A- or better					ok
B2b. Currency Exposure not to exceed the percentage of foreign bonds held in each individual currency					ok
B2c. Counterparties					ok
Currency forward contracts: counterparties must have a short-term credit rating of at least A1 or P1					ok
Other OTC Derivatives: counterparties must have a long-term credit rating from S&P of at least A-					ok
B2d. Effective Duration	8.23	2.53	0.73	15.73	ok
B3a. Fixed income positions		27	12		ok
ii. The maximum aggregate forward exposure (delivered or received in US \$) with any single counterpart shall not exceed 25% of the U.S. dollar value of the account.					ok
F2. Annual Turnover		386%	200%	400%	ok
The portfolio is in compliance with all other aspects of the Portfolio Guidelines				<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

MANAGER EXPLANATIONS FOR DEVIATIONS FROM PORTFOLIO GUIDELINES

There were no deviations.

ORGANIZATIONAL/PERSONNEL CHANGES

There were no organizational or personnel changes.

ACCOUNT TURNOVER

Gained:	Number of Accounts:	0	Total Market Value (\$m):	\$	-
Lost:	Number of Accounts:	0	Total Market Value (\$m):	\$	-
	Reason(s):				